SECRET SECURITY INFORMATION

DEPARTMENT OF STATE

MEMORANDUM OF CONVERSATION

DATE: August 29, 1952

SUBJECT: Italy's Economic Problems

PARTICIPANTS: Mr. Pella, Minister of the Treasury
Mr. LaMalfa, Minister of Foreign Trade
Mr. Luciolli, Charge d' Affaires, Italian Embassy
Mr. Magistrati, Director General, European Cooperation of Foreign Affairs
Mr. Ortona, Counselor, Italian Embassy
✓ Mr. Bruce, Acting Secretary of State
Mr. Linder, E
Mr. R. B. Knight, WE
Mr. Tesoro, WE

COPIES TO: U.S. Participants
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American Embassy Paris EXCON

(Meeting started at 3:30 p.m., adjourned at 5:40 p.m. Conversation mostly in French. Mr. Tesoro translated into Italian when necessary)

Mr. Bruce welcomed the Italian visitors and expressed the admiration of the American Government for the policies successfully followed by the Italian Government in achieving political stability and financial stability, which is a prerequisite for the former. He then asked Ministers Pella and LaMalfa whether they had any particular subject which they would like to discuss.

Financial Policies, Defense Effort and U.S. Aid.

Minister Pella said that during the forthcoming crucial election year the Italian Government will face several economic problems in addition, of course, to the main political problems of Trieste and Italy's admission to the UN. Either of these problems could be fateful to the government. He explained how

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the Italian Government had embarked on a program of large investments and huge defense efforts which they were anxious to carry out within the limits dictated by the necessity of maintaining financial stability. He said that in this respect the Italian Government was anxious to do its part, but necessarily had to rely on continuation of United States assistance. He pointed out that it was particularly disturbing for the Italian Government to see that the tentative illustrative figure of defense support aid to Italy as published in the newspapers amounted to $80 million, while the current Italian budget had been provided on the receipt of $200 million. Mr. Pella stressed the relationship between United States assistance (including counterpart) and financial stability, stating that in the last two or three years the Italian budget had had yearly deficits of about 500 billion lira, of which 300 could be normally financed through non-inflationary borrowing. The balance of 200 billion lira represented always a problem which the Italian Government had been successful in solving up to now, and was confident to solve also in this fiscal year, provided that adequate United States assistance in all forms would be forthcoming. He pointed out that current Italian budgetary cash expenditures, against appropriations of this fiscal year and preceding years, equal current authorizations.

Mr. Bruce thanked Minister Pella for his exposition and told him that we fully appreciated the Italian problems but that, as he well knew, the United States Government was not in a position to firm up the amount of financial assistance to Italy or to any other country until the Annual Review was completed. Mr. Bruce indicated to Minister Pella that, while he strongly felt that Italy had to be commended on its accomplishment in their achievement and maintenance of financial stability, he hoped that present conditions would now permit the Italian Government to take appropriate action to expand production and employment not only for the defense effort but also to counteract the threat to social and political stability arising from unemployment. He mentioned to Mr. Pella that, while the specific actions to be taken were, of course, a matter for the Italian Government to decide, he had the impression that economic expansion could be achieved through an increase in the rate of expenditure of government funds already appropriated, by increasing government investments, and through stimulation of private investment by relaxation of credit controls, or by other means which might appear appropriate to the Italian Government. He hoped also that the Italian Government would find it possible to increase its defense effort at least to equal its tentative commitment to the TCC for fiscal 1953.

Minister Pella answered with a detailed exposition of the reasons why the Italian Government believes that Italy is already doing all that it can in the fields of investment and defense effort, short of jeopardizing financial stability. Then he reviewed the policies often announced by the Italian Government. He mentioned specifically, among other things, (1) the fact that the Italian banking system liquidity is now only 22% (compared with a legal requirement of 2% liquidity and with a pre-war rate of 20% or 30%) because the banks have outstanding investments amounting to 78%; (2) that, although the Cassa del Mezzogiorno had been necessarily slow in starting its actual operations, it was



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it was now in full swing and he had, just before leaving Rome, signed authorization for 12 billion lire expenditures for one month; (3) that Parliament had recently passed an authorization of extraordinary defense expenditures of 500 billion lire, to be made in the next four years; (4) that the Lisbon TCC commitment had been taken on the assumption of possible United States assistance larger than now appeared to be likely.

Emigration

Mr. Pella then raised the question of Italian emigration. He expressed the appreciation of the position taken by the United States administration with reference to this problem in recent years and emphasized how important the over-population and unemployment problems were for Italy's social and political stability, also, of course, in the context of the forthcoming elections. He then asked the United States support to Italy's efforts aiming to increase Italian emigration both to over-seas and to other European areas. Mr. Bruce told Mr. Pella that the Administration had given full support to the Celler Bill for 300,000 immigrants from Europe over the next three years, of whom 117,000 would be from Italy. Unfortunately, the Bill was not passed by the House and it appeared unlikely that any similar bill would be passed by the United States Congress before the Italian elections, although, of course, he reiterated that the Administration would support any similar bill. He told Mr. Pella that the United States Government would also be happy to support, as in the past, the Italian efforts in this field through diplomatic channels, at its Embassies abroad, and in international organizations, in all instances where it was felt that such support would be beneficial and when the proposal under discussion would have a real chance of success. Mr. Bruce finally said that he understood that there were a number of surveys and studies made by international organizations in this field and that United States technicians would be happy to discuss them with Italian experts, if so desired.

Minister Pella thanked Mr. Bruce for what he had said, then Mr. Bruce asked Minister LaMalfa whether he wanted to discuss some special problem in which he was particularly interested.

Italy's Trade Policies

Minister LaMalfa said that, as the Minister of Foreign Trade, and as such, in charge of the balance of payments, he was particularly disturbed by the fact that the mounting investment expenditures programmed by the Italian Government were expected to have their full economic impact on the Italian economy and her balance of payments by the next spring, at the very time when the decreasing rate of United States aid is likely to be most felt. He reiterated that the Italian Government had embarked on a program of liberalization of trade, in which he fully believed. However, he was worried because of the decreasing size of the United States financial assistance, and said that there were symptoms which indicated that the Italian economy would probably face serious difficulties next spring. He mentioned the trade restrictions imposed

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by other countries, such as the United Kingdom and France, and the adverse impact they had on Italy's EPU position. He then expressed the hope that Italy would be able to avoid modifying its trade policies, but he felt it his duty to point out to the American Government the difficult situation created by the factors mentioned above.

In this respect he pointed out that the gold and dollars which Italy had received from EPU during the period when she was running a surplus could not be considered as part of the normal Italian exchange reserves, but should be kept in a separate category, specifically earmarked for payments to EPU, due to Italy's trade difficulties with other OEEC countries. Mr. LaMalfa said that this was psychologically very important because, while the Italian public would not be alarmed too much by any decrease in such earmarked special reserve, it would probably be dangerous if the Italian financial observers were to notice a substantial decrease in the over-all gold reserves of the Italian Government. He stressed that Italy had probably the best record in OEEC, having liberalized 98% of its trade.

Mr. Linder then expressed our appreciation for the policy followed by the Italian Government in the field of international trade and stressed that we hope that Italy will be able to maintain the present policy of liberalized trade. He indicated also that, while we, of course, understand the need in some cases for heavy debtors to impose trade restrictions, it would appear that no such need would be in sight for Italy with her large cumulative surplus.

East-West Trade Controls

Mr. Linder then expressed to Minister LaMalfa our warm congratulations for the exceptionally clear and vigorous stand on the need for East-West trade controls, which he took before the Italian Parliament on July 10. Mr. Linder told Mr. LaMalfa that we are pleased by the cooperative role that the Italian Government has played in the COCOM. However, he called the attention of Minister LaMalfa to the fact that we are faced by a very serious problem with reference to the "prior commitments" in light, of course, of the provisions of the Battle Act and of the Congressional and public interest in the matter. Mr. Linder emphasized that the Battle Act does not distinguish between shipments to the East made under contracts signed before the provisions were enacted, or under agreements reached after such date. He indicated that this was one of the most difficult problems Mr. LaMalfa had to face, fully realizing how difficult it was for a government or an individual to fail to keep an agreement. However, he wanted to call to the attention of Mr. LaMalfa the Congressional and public information aspects of this problem and ask that the Italian Government do its utmost to meet the requirements of the Battle Act even in relation to contracts signed before the adoption of this act. In particular Mr. Linder asked that, whenever

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whenever possible Italy try to switch from a more to a less strategic similar commodity (as, for instance, is possible in the case of ball-bearings); finally, when impossible for the Italian Government to prevent shipment of one of those prior commitments, it should keep us fully informed of all details of the case. Mr. LaMalfa stated that the Italian Government had pledged its cooperation and will faithfully keep its word to avoid contracts and shipments in violation of the Battle Act. However, as for the prior commitment problems, Minister LaMalfa stressed the difficulty which he was facing in voiding export licenses which the Italian Government had granted before the Battle Act was enacted, and in most cases after full discussion with COCOM. He promised, however, that the Italian Government will cooperate to the full in restricting to the minimum the delivery of prior commitments and will fully cooperate in meeting the terms of the Battle Act.

Benton Amendment and Anti-Trust Legislation

Mr. Linder raised the question of the Benton Amendment and said that Senator Benton had been somewhat critical of the Administration's performance in achieving higher productivity and freer competition in Europe. He said that he understood that the Italian Government had introduced in the Italian Parliament a bill in 1950 against trusts. Although this bill apparently did not have any teeth-it was merely for the purpose of obtaining information-the United States Government was encouraged by it and consequently chagrined when it died in Italian Parliamentary Committees. He stressed that it would be particularly helpful from the public and Congressional relation viewpoint if the Italian Parliament could pass some such legislation as a start, as the administration was desirous of fully respecting the provisions of the Benton Amendment; and was concerned lest there be congressional difficulties for Italian aid if no action were taken. Minister LaMalfa expressed complete agreement with the economic and political philosophy of the Benton Amendment and said that the Italian Government would do its best in that direction, notwithstanding the difficulties involved.

Articles 78 and 83 of the Peace Treaty

Finally Mr. Bruce raised with Minister Pella the question of Articles 78 and 83 of the Italian Peace Treaty and urged him to take a personal interest in prompter settlement of claims under Article 78 and also urged that the Italian Government agree to the appointment of a third neutral commissioner under Article 83. Mr. Bruce pointed out that, although we were aware that the Italians had recently settled important claims such as the Standard Oil's for three or four billion lira, we desired also an improvement in the settlement of small and medium claims. Mr. Pella said that the Italian Government was doing its best, as evidenced by the fact that during the last month he had signed payment authorizations amounting to 4 billion lira. He said that he would see what he could do with reference to the appointment of the third commissioner.

Before leaving, Mr. Bruce expressed to Mr. Pella his condolences because of the death of his father, and told him how sorry Secretary Acheson was not to have been in Washington to see him. Mr. Bruce concluded by saying that he looked forward to seeing him and Minister LaMalfa in Mexico City at the Bank and Fund meetings.

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